

## Message Text

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PAGE 01 STATE 192000

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ORIGIN EB-11

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EUR:RSMITH

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TO AMEMBASSY OTTAWA PRIORITY

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C O R R E C T E D C O P Y (SECOND UNNUMBERED PARA LINE 3 OMITTED)

E.O.11652: N/A

TAGS: ENRG

SUBJECT: DISCRIMINATORY CURTAILMENT OF NATURAL GAS  
EXPORTS TO US.

SUMMARY: THE DEPARTMENT HAS BEEN INFORMED BY NORTHWEST  
PIPELINE COMPANY (NWP) OF A SELECTIVE CURTAILMENT OF  
NATURAL GAS SHIPMENTS TO THE U.S. AS A RESULT OF POLICIES  
OF THE BRITISH COLUMBIA PETROLEUM CORPORATION (BCPC),  
A CROWN AGENCY. THIS CURTAILMENT APPEARS TO BE BOTH  
DISCRIMINATORY AND A VIOLATION OF THE NWP CONTRACT WITH  
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PAGE 02 STATE 192000

WEST COAST TRANSMISSION COMPANY (WCT) ALSO A CANADIAN FIRM.

THE CURTAILMENT DURING THE COMING HEATING SEASON COULD REACH 240 MILLION CUBIC FEET PER DAY AND HAVE SERIOUS CONSEQUENCES ON PACIFIC NORTHWEST CONSUMERS. FURTHER DETAILS REGARDING THIS PROBLEM ARE PROVIDED IN THE FOLLOWING PARAGRAPHS.

THE EMBASSY SHOULD CONVEY TO THE GOC AT THE EARLIEST OPPORTUNITY USG CONCERNS BOTH AS TO THE LEGALITY OF THE ACTIONS TAKEN AGAINST NORTHWEST PIPELINE COMPANY AND THE SERIOUS IMPACT THAT THESE DISCRIMINATORY ACTIONS MAY HAVE ON THE US PACIFIC NORTHWEST. END SUMMARY.

1. NORTHWEST PIPELINE CORPORATION (NWP) WAS FORMED JANUARY 31, 1974 BY DIVESTITURE OF NORTHWEST DIVISION OF CONTRACT WITH WEST COAST TRANSMISSION CO. (WCT) OF BRITISH COLOMBIA FOR DELIVERY OF 800 MILLION CUBIC FEET PER DAY (MMCFD) OF BRITISH COLOMBIA NATURAL GAS AT U.S. BORDER.

2. PRODUCTION PROBLEMS LAST FALL CAUSED WCT TO ANNOUNCE REDUCTION IN DELIVERIES TO CANADIAN AND US CUSTOMERS. ON OCTOBER 24, 1973, WCT ANNOUNCED IT WOULD ABANDON PLANS FOR PRO RATA CURTAILMENT OF DELIVERIES, WOULD SERVE CANADIAN CUSTOMERS FIRST AND THAT THE ENTIRE SUPPLY SHORTFALL WOULD BE BORNE BY U.S. CUSTOMERS. THROUGHOUT 1973-74 HEATING SEASON, SELECTIVE CURTAILMENT TO U.S. AVERAGED 152 MILLION CUBIC FEET PER DAY (MMCFD). NWEP PROTESTED TO WCT AND NEB IN OTTAWA SINCE NWEP WAS NOT AN INTERRUPTABLE CUSTOMER AND HAD FIRM CONTRACT.

3. IN FURTHER ACTION, ON NOVEMBER 7, 1973 THE BRITISH COLUMBIA PROVINCIAL GOVERNMENT FORMED THE BRITISH COLOMBIA PETROLEUM CORPORATION (BCPC), A CROWN AGENCY. ALL GAS SUPPLY CONTRACTS WITH BRITISH COLOMBIA PRODUCERS OF NATURAL GAS WERE THEN ASSIGNED BY WCT TO BCPC. BCPC THEN RENEGOTIATED THE SUPPLY CONTRACT WITH BRITISH COLUMBIA HYDRO, A GOVERNMENT OWNED UTILITY COMPANY, RAISING THE PRICE OF NATURAL GAS TO 58 CENTS PER THOUSAND CUBIC FEET (MCF). SINCE WCT'S CONTRACT WITH NWEP REQUIRED AN EXPORT PRICE 105 OF THE DOMESTIC PRICE, BCPC WAS ABLE TO INCREASE LIMITED OFFICIAL USE

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PAGE 03 STATE 192000

PRICE TO U.S. FROM 32 CENTS/MCF TO 61 CENTS/MCF. DESPITE NWEP PROTEST, NEB UPHOLD THE HIGHER PRICE.

4. IN JULY OF THIS YEAR, NWP WAS ADVISED BY BCPC THAT SELECTIVE CURTAILMENT OF NATURAL GAS WOULD CONTINUE AND THAT PRICE PER MCF WOULD INCREASE TO \$1.35 ON NOVEMBER 1, 1974. NWP PROTESTED CITING VIOLATION OF CONTRACT WHICH REQUIRES SHORTFALLS TO BE ALLOCATED PRO RATA AMONG ALL

WCT CUSTOMERS. SUBSEQUENTLY, NWP MADE COUNTER OFFER OF 99 CENTS/MCF PROVIDED PRO RATA CURTAILMENT PUT INTO EFFECT AND GREATER SHARE OF INCREASE BROUGHT BACK TO WELL OPERATORS TO ASSURE LARGER FUTURE PRODUCTION. BCPC ACCEPTED PRICE OFFER BUT WOULD NOT APPROVE PRO RATA CURTAILMENT.

5. AT THIS JUNCTURE, NWP FACES PROBABLE INADEQUATE DELIVERIES FROM WCT (SELECTIVE CURTAILMENT 1974-1975 HEATING SEASON ESTIMATED BY WCT TO BE ABOUT 240 MILLION CUBIC FEET PER DAY), SHARPLY ESCALATING PRICES (FROM PRESENT 61 CENTS TO 1.35/MCF) AND AN EXTREMELY DIFFICULT SITUATION FOR PACIFIC NORTHWEST CUSTOMERS THIS WINTER.

THE ECONOMIC IMPACT OF A 240 MMCFD CURTAILMENT COULD HAVE DETRIMENTAL EFFECTS, IN THE VIEW OF NWP'S LOCAL DISTRIBUTION COMPANIES, ON APPROXIMATELY 14,000 JOBS.

6. THE RAPID PRICE ESCALATION FOR BC NATURAL GAS IS ALSO OF SERIOUS CONCERN TO THE USG. THE ABRUPTNESS OF THE INCREASES AND THE DEPENDENCE OF THE US PACIFIC NORTHWEST ON CANADIAN SUPPLIES WILL SURELY RESULT IN SEVERE ECONOMIC DISLOCATIONS TO U.S. CONSUMERS.

7. CHAIRMAN JOHN MCMILLAN OF NWP HAS BEEN CALLED TO VANCOUVER BY BCPC FOR SEPTEMBER 3 MEETING. PURPOSE OF MEETING BELIEVED TO BE TO INFORM COMPANY ITS COMPROMISE PROPOSAL DESCRIBED PARA 4 HAS BEEN REJECTED. NWP HAS PREPARED LITIGATION AGAINST WCT, BCPC, ET AL, BUT WOULD PREFER SOME REASONABLE ADJUSTMENT ALONG LINES NWP PROPOSAL REFERRED TO ABOVE.

8. EMBASSY REQUESTED TO CONVEY TO GOC THE USG CONCERN LIMITED OFFICIAL USE

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OVER TREATMENT OF NWP BY WCT AND BCPC AND OUR BELIEF SELECTIVE CURTAILMENT OF NATURAL GAS DELIVERIES AND ABRUPT PRICE INCREASES COULD HAVE SEVERE IMPACT ON ECONOMIES OF PACIFIC NORTHWEST STATES. IN VIEW APPROACH OF WINTER, USG WOULD HOPE GOC CAN USE ITS GOOD OFFICES TO EFFECT A REASONABLE SOLUTION TO NWP CONTRACTURAL DIFFICULTIES. AT MINIMUM, USG FEELS PRO RATA CURTAILMENT IS REQUIRED. THIS HAS BEEN U.S. PRACTICE IN HANDLING CURTAILMENT OF SUPPLIES TO CANADIAN CUSTOMERS, E.G., PANHANDLE EASTERN PIPELINE CURTAILMENTS TO BOTH U.S. CUSTOMERS AND TO UNION GAS, LTD. IN ONTARIO. KISSINGER

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## Message Attributes

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**Disposition Case Number:** n/a  
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